



How to Protect Yourself Against a Potential Market Selloff

Description

Every investor would be (and should be) interested in predictions regarding a market correction — whether you want to prepare your portfolio and leverage potentially low prices or buy a few profitable businesses at great discounts. A market crash could be triggered by a colossal selloff where investors try to realize the profits they've made from their recovery stocks.

Right now, the probability of a market crash happening — or not — is about 50/50. There are indications favouring both outcomes. Let's take a look at both scenarios.

No, a market selloff is *not* approaching

Oil is making a comeback. Oil producers around the globe are taking measures to ensure that the production is in-line with the need to eliminate the surplus oil that was accumulated when the demand for oil hit rock bottom at the height of the pandemic. This is good news for an economy like Canada's, which relies quite heavily on oil.

The tech rally that led the market recovery is still going strong. The **S&P/TSX Capped IT Index** is still rising, and has now grown over 112% from its lowest point last year. Other sectors are well on their recovery journey, and the number of new cases and deaths has come down significantly.

Yes, a huge market selloff might be approaching

There are just as many — if not more — indications to endorse the fear that a market selloff might be on the horizon. The new COVID strains have forced the government to set strict travel restrictions (by air as well as by land).

If interest rates keep rising, the probability of a housing market crash could also increase.

If a market crash is on the horizon, you might want to look into a generous Dividend Aristocrat **Exchange Income Fund** ([TSX:EIF](#)) to your portfolio. [The company](#) is still a good buy, thanks mostly to

its mouthwatering 6.14% yield. But due to its powerful recovery, which made the stock grow over 162% in less than a year, the stock is a bit overpriced right now.

Should we witness a correction at some point, you might be able to bag this airline-industry-dependent stock at a significant discount. In the last crash, the share price fell by about 63% from its pre-crash high.

Foolish takeaway

If you believe a market selloff is approaching, consider arranging some liquidity so you can cherry-pick great investment opportunities. Your existing portfolio could be fine if you made the right changes before or after the 2020 crash and is now made up of resilient stocks. Alternatively, consider making a few adjustments and anchoring your portfolio with [safer assets](#).

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:EIF (Exchange Income Corporation)

PARTNER-FEEDS

1. Business Insider
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Date

2025/07/04

Date Created

2021/02/16

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